

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

IN RE: IES UTILITIES INC. and INTERSTATE POWER COMPANY	DOCKET NOS. TF-98-308 TF-98-309
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ORDER APPROVING TARIFFS AND REQUIRING ADDITIONAL FILING

(Issued April 19, 1999)

PROCEDURAL HISTORY

On December 2, 1998, IES Utilities Inc. (IES) and Interstate Power Company (Interstate) each filed proposed tariffs, identified as TF-98-308 and TF-98-309, which would allow existing electric interruptible service customers a demand replacement capacity service option. Customers choosing this option would continue to be subject to interruptions by IES or Interstate but could avoid actual interruption by purchasing replacement capacity. IES and Interstate proposed to offer these tariffs for a two-year pilot period. On December 21, 1998, the Large Energy Group (LEG), an informal organization of over 30 large energy consumers, filed a letter in support of the proposed tariffs and a request to intervene in the event a hearing was held on the proposed tariffs.

The Consumer Advocate Division of Justice (Consumer Advocate) filed a conditional objection on December 17, 1998. Consumer Advocate said additional investigation was required to determine if the proposed tariffs are appropriate. The

Board docketed the tariff for further investigation on December 30, 1998, but did not set a procedural schedule. IES, Interstate, and Consumer Advocate were given additional time to attempt to resolve the issues and ordered to file a joint report detailing their progress in resolving some or all of the questions raised and indicating whether they believe further proceedings are necessary. The required report was filed on January 22, 1999.

Consumer Advocate, IES, and Interstate indicated in their report outstanding factual, legal, and policy disputes and issues remained. Therefore, the Board set a procedural schedule and granted LEG's petition to intervene by order issued January 29, 1999. On February 17, 1999, the Board modified the procedural schedule and granted the petition to intervene filed by MidAmerican Energy Company. All parties had the opportunity to submit prefiled testimony and a hearing was held on March 30, 1999. IES, Interstate, and Consumer Advocate filed post-hearing briefs.

SUMMARY OF PARTIES' POSITIONS

IES and Interstate said this pilot proposal was developed in response to their interruptible customers' concerns over the number of interruptions. (Tr. 8). The pilot is limited to existing customers who have been served on an interruptible basis for at least one year as of December 1, 1998. In addition, participating interruptible customers cannot reduce their existing level of contract firm demand. (Tr. 9). IES and Interstate testified these limits are to avoid any revenue loss. Otherwise, IES

and Interstate said existing firm customers would migrate to the program because interruptible credits in the existing market are likely higher than the cost of replacement capacity in the wholesale market. Likewise, current interruptible customers would likely seek to change their firm contract level. (Tr. 9). IES and Interstate acknowledged that if these tariffs were offered on a permanent basis, there would probably need to be an adjustment of the interruptible credit.

Consumer Advocate's primary arguments against the tariffs focused on the potential revenue loss if the pilot tariffs were made permanent. In another proceeding, revenue loss from a permanent replacement tariff was estimated to be \$22 to \$30 million per year for IES. (Tr. 65-66). The loss for Interstate was estimated at \$15 million per year. (Tr. 66). Consumer Advocate was concerned that IES and Interstate may seek recovery in a future rate proceeding of any revenue loss and/or attempt to shift costs of the revenue loss to non-participating customers or customer classes. Consumer Advocate also argued that allowing interruptible customers to purchase replacement power in effect nullifies the interruptible arrangement because those customers would continue to receive power.

DISCUSSION

On August 25, 1997, the Board issued its "Final Decision and Order" in a complaint brought by Lambda Energy Marketing Company, L.C. (Lambda), against IES. The proceeding was identified as Docket No. FCU-96-8. In that case, Lambda sought to provide replacement power to IES interruptible customers, but IES refused.

In rejecting the Lambda proposal, the Board expressed concerns, among other things, about revenue loss and violation of Iowa's exclusive service territory statutes.

The proposed pilot tariffs are significantly different from the proposal in Lambda. First, only existing interruptible customers are eligible to participate and their participation is limited to current firm service levels. In Lambda, all customers, including existing firm customers, would have been able to participate. Based on the level of the interruptible credit, there was the very real possibility of a mass migration of existing firm customers, leaving IES with no recourse for the capacity it had committed to serve that load. Such a program could result in significant revenue loss to the utility. There is no revenue loss issue with the proposed pilot tariffs because of the eligibility limitations.

In addition, there were concerns Lambda's proposal violated Iowa's electric exclusive service territory statutes. That issue is not present here because IES and Interstate, not a third party, are offering the service within their exclusive boundaries.

Consumer Advocate's arguments focus on the future—what will happen if these pilot tariffs become permanent. The Board agrees that if there is a proposal for a permanent replacement capacity tariff there may be significant issues involving revenue loss and cost shifting. However, those issues are not present in the pilot tariffs and the Board believes the pilot will be useful in obtaining information on the desirability, popularity, and design of replacement power tariffs. The Board recognizes that if these tariffs are made permanent and made available to all

customers, significant changes may be required, including reductions in the amount of the interruptible credit.

The Board believes this pilot program responds to the concerns of interruptible customers. Interruptions can cause significant economic loss not only to the customer who is interrupted, but also to that customer's employees. Replacement power can be viewed as an insurance policy against interruptions. However, IES and Interstate continue to receive the benefits of the interruptible tariffs because replacement generation is supplied by entities other than IES and Interstate. (Tr. 23). In the event of an interruption, participating customers are not able to call upon native load generation and, therefore, IES and Interstate will be able to defer new native load capacity to the same extent as they could before the replacement power option. (Tr. 23).

IES and Interstate propose an administrative charge of \$.60/kW. This charge is based on the charge for a similar program offered by Wisconsin Power and Light, a sister utility. For the second year of the program, the Board will require IES and Interstate to develop an administrative charge based on the actual costs incurred in year one of the program and, upon Board approval, implement this charge for year two.

IT IS THEREFORE ORDERED:

1. Tariff filings TF-98-308 and TF-98-309 are approved on a two-year pilot basis.

2. IES and Interstate shall file with the Utilities Board, at least 30 days prior to the beginning of year two of the pilot, a proposal to base the administrative charge on the actual costs incurred during year one of the program.

3. Motions and objections not previously granted or sustained are denied or overruled. Any argument in the briefs not specifically addressed in this order is rejected either as not supported by the evidence or as not being of sufficient persuasiveness to warrant comments.

UTILITIES BOARD

/s/ Allan T. Thoms

ATTEST:

/s/ Raymond K. Vawter, Jr.
Executive Secretary

/s/ Paula S. Dierenfeld

Dated at Des Moines, Iowa, this 19th day of April, 1999.